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COMMUNITY DEVELOPMENT IN COBDEN: A New Medical Clinic

- **COMMUNITY DEVELOPMENT CASE STUDY**
- **HOW ILLINOIS FARMERS GET CAPITAL**
- **COMPARATIVE ECONOMIC GROWTH: U.S.A. vs. U.S.S.R.**

SIU PUBLISHES TOURIST BOOKLET

A 36-page booklet entitled *Southern Illinois,* designed to give tourists and other visitors "a glimpse at the past and present in the Land of Contrasts," has been published by Southern Illinois University's Division of Area Services.

The booklet is composed of eight sections of text and some 60 photographs, including a color cover photo of a sunset on Crab Orchard Lake. Following a two-page "Introduction to Southern Illinois," are descriptive sections about the land, early inhabitants, history, economic resources, manufacturing, agriculture, education and recreation.

On the last page is a calendar of annual events, along with pictures of the Hambletonian, Murphysboro Apple Festival, and other tourist attractions Inside photos include representative shots of communities, industries, farms, historic sites, schools, lakes and beaches.

The booklet was written by Ed Hasse, former co-editor of the Bulletin, assistant director of SIU's Information Service, and was designed by Harold Schwarm, former director of the SIU Art Service. The photos are the work of nearly a score of University and area press and commercial photographers.

Single copies of the booklet are available for $1. They may be purchased in the University Museum. Mail order requests will be filled by the SIU Information Service and billed later.

ON THE COVER

The cover picture for this issue of the *Southern Illinois Business Bulletin* is an exterior shot of the new Cobden Medical Clinic. The story of this medical clinic, its inception, and how it came into existence is the major topic of Frank Sehnert's article—"Cobden: A Case Study in Community Development"—which begins on page 3 of this issue. The photo was made by the Wiggs Studio, Jonesboro.

Southern Illinois Business Bulletin **Winter, 1960 Vol. 10, No. 1**

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BETTER MANAGEMENT 'KNOW-HOW' RAISES BUSINESS EFFICIENCY

by Wilford L. White

It is with great pleasure that I join you to co sider some of the management problems of bu ness, with emphasis upon small business. I want talk primarily about smaller firms. As a result, po sibly, we should pause a moment and ask ourselv What is a small business? For practical purpose the definition to be found in the legislation esta lishing the Small Business Administration is goo ". . . one that is independently owned and operat and which is not dominant in its field of oper tion." Independently owned and not dominan That is the type of manufacturing, distributing, servicing organization I have in mind this evenin

A Successful Business

The subject of my talk suggests a question, wh constitutes a successful business? How do we mea ure success? First, any business—large or small exists because its products and services meet t need of the consuming public. There are almost 1 million individuals in the United States today, ea with his own ideas of what he needs and wan how badly he wants it, and what he is willing to to get it.

More important, these needs are changing. T things he bought yesterday may not find any bu ers today and the products he will be willing buy tomorrow may not be in existence today. He lies one of the greatest risks of business—a ve important risk to small business.

Therefore, the first element in the success any business is that it produce a product or servi for which there is an inherent need upon the pa of an important portion of the consuming public.

Second, this product or service must be ma available to the public at a time when they a willing to buy it. Styled products have to brought on the market at the precise time wh consumers are ready and willing to buy and u that particular style. Clothing heavy enough f the market here this winter would have little or market in Florida or Lower California at any tim Frozen foods cannot be sold in many parts of t world today because the consumers have little or mechanical or electrical refrigeration. *Timing most important.*

Third, every successful business has to have e perienced workers, qualified to produce and d tribute the products involved. This means care selection, adequate supervision—usually by t owner-manager—and sufficient returns in mon

(Continued on page 1

Wilford L. White is director of the office of managem and research assistance, Small Business Administrati Washington, D.C. This article is a condensed text of address he gave in October under the auspices of the S School of Business Lecture Series.

)BDEN: A CASE STUDY IN COMMUNITY DEVELOPMENT

by Frank H. Sehnert

'Cobden has a community medical clinic and a v doctor. It also has a past and a future." This the opening line of the pantomime which nched the dedication services of Cobden's new nmunity clinic. Cobden has also a significant sent, and it is a story of the community develop- nt process in action. This is a summary of the oden Community development program, carried in co-operation with Southern Illinois Univer- .

n order to understand the full significance of association of the Medical Clinic to the Com- nity Development Process, it is necessary to first derstand the community development approach ich was applied.

Experimenting with the community development ocess for the past five years has offered me numer- opportunities to explore different methods of king this process more meaningful and practical. t of this experience has been developed a "Gen- lized Outline of the Process of a Community velopment Program in a Community."

This outline has been an attempt to separate the ocess into specific areas of importance as well as as of activity; my theory being that unless cer- n economic, sociological, psychological, educa- hal, as well as philosophical principles are given sideration or adhered to at crucial periods in e, the community development process will not lize its full meaning or success.

The eight periods which seemed important as es of testing or checking this theory are these:*

. Introductory Period
I. Preliminary Period
II. Planning Period
V. Organizational Period
V. Training Period
VI. Operational Period
VII. Culminating Period
VIII. Continuation Period

The Continuation Period

Without describing in full detail the different egories of each period, it should suffice to say t the Cobden Community Development Program now in the Continuation Period (Number VIII). The major function of this period is that the community development program becomes integrated into the follow-up activities of the consultant and operations of the Department. These could be separated into seven categories:

1. The consultant—instead of spending daily or weekly time in the community—continues to make occasional visits. These are to keep in contact or consult with the officers on the different problems still confronting the community, or on matters related to the organizational structure continuing the community development process or program in the community.

2. Perhaps more intensive local workshops for guiding or training community leaders are inaugurated.

3. Special assistance in specific areas is furnished by the consultant when new community needs require intensive consultation.

4. More university and other agency resources become involved in the community's development effort. These resources now take on a different meaning because the consultant has helped the citizens to relate them to their community's needs.

5. New extension classes with more breadth and depth are established in the areas of the committee reports with perhaps using these reports as reference or resource books. Local people who have worked on the committees become more involved in the decision of course content.

6. Community scope or perception is broadened in the cultural and liberal arts aspects of life because the consultant encourages the citizens to relate these to the uniqueness and individuality of the community. (These might include art and craft centers, music and literary groups, etc.)

7. Attention of community leaders is focused more on the problems of the regional community and more active representation on the Department Advisory Board is encouraged.

The Community Medical Clinic

The Cobden community was the first small town in the U.S. to complete a medical clinic program—including obtaining a full-time resident physician—in less than a year. This was possible in the fourth year of Cobden's Community Development Program because some of the citizens and mainly the community development leaders had learned from the intensive first-year activity how to implement the following of the Community Development process: fact-finding, study, and reporting; informing and educating the community; discussion, decision and action; and evaluation of the result. Also as a

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It should be emphasized that this is a generalized out- , and is still in the process of being defined. Since its iption in the summer of 1956, I have revised it three es.

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rank H. Sehnert is a community consultant with the department of community development. He has been sulting the Cobden program for the past four years, the e County program for the past three years, and for a and a half the Crawford County program, which con- of a separate program in each of the five towns.

result of their intensive self-study, Cobden had established a more meaningful community council structure.

Cobden's Community Development Council was formed in the Culminating Period (VII).

The Community Development Process Applied

This council was responsible for establishing the medical clinic by adhering to the community development process in the following manner:

Fact-Finding—Through the Community Development Program, Cobden was attempting to rise above the socio-economic impasse which had straddled the community for many years. Right in the middle of this trying developmental effort, the community was discouraged by the unexpected death of its highly esteemed doctor. Another well-known doctor in the community was semi-retired and could not fulfill the current medical demands of the community.

The officers turned to the consultant for assistance. The first decision was to make Cobden's need known to the medical colleges. During this investigation it was discovered that the Sears Roebuck Foundation had a medical program. A survey was sent to the community council by the foundation for them to gather data as to whether the community could support a doctor and justify the clinic. This was no new experience for Cobden, because its citizens had completed many such surveys during the intensive fact finding in the first year of their community development effort.

Study—These facts were studied and analyzed by the Sears Roebuck Medical Foundation instead of the community study committees as had occurred in the community study effort.

Reporting—No elaborate report was compiled for this project. Since the doctor situation was a specific community problem a simple two-page report sufficed. The Sears Roebuck Medical Foundation assisted the community by compiling the facts into the report and making it available to the community council.

Informing and Educating the People—A large community-wide meeting was held to educate as many people as possible at once to the meaning and importance of these facts. The same size audience (350) which initiated the Cobden Community Development program three years earlier was assembled to hear the report of the Sears Roebuck Medical Foundation.

Discussion—The discussion at this session included questions from the audience which were answered by the technical resource person from the Foundation.

Decision—After sufficient time was allocated to the questions and answers, a vote was taken as to whether the community thought the clinic project was a good idea. The majority raised their hands. The next decision by the audience was whether to build a one-doctor or two-doctor clinic. The two-doctor clinic was voted upon. The third decision was the important matter of finances. "All those who would be willing to put their own funds into the buildin of the clinic, stand," announced the chairman o this momentous occasion. Over two-thirds of th audience stood, and Cobden had launched th building of a $25,000 clinic.

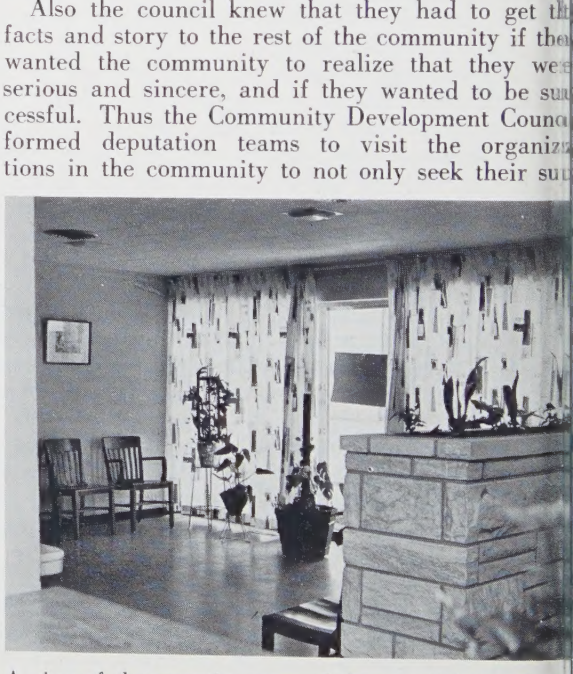
Action—The Community Development Council ap pointed a building-site committee, a building-con struction committee, a fund-raising committee, an called upon the incorporated industrial foundation which they had formed an earlier year of the Com munity Development Program, to handle all th financial matters. Technical assistance in the form of architectural plans and solving of constructio problems was contributed by the Sears Roebuc Medical Foundation.

Evaluation and Follow-up—Many local citizens wer not in attendance at this auspicious occasion b cause they thought that it would be a lot of tal and nothing would happen anyway. "What, is th Community Development Council crazy?" "Wher do they thing they can get $25,000 in this town?" "If it was here, people had it well hidden so the could take it with them when they died." Thes and many other remarks greeted the loyal 300 a they mixed with their neighbors the days whic followed the meeting.

But the community development leaders were d termined to tackle the impossible. Through the intensive self-study and analysis the first year the realized that if anything was going to help Cobde improve its socio-economic dilemma, it was goin to have to come from Cobdenites themselves.

Thus they held meetings analyzing, diagnosin and planning. They had no trouble getting peop to attend meetings now, because their meetin had a clearly defined purpose.

Also the council knew that they had to get th facts and story to the rest of the community if the wanted the community to realize that they we serious and sincere, and if they wanted to be su cessful. Thus the Community Development Coun formed deputation teams to visit the organiz tions in the community to not only seek their su



A view of the reception room of the new Cobden Medi Clinic.

t, but to also explain the project and answer r questions. All organizations endorsed the proj- and adopted formal resolutions to make known r decision. The newspaper ran front-page ies and the local radio station had special broad- s keeping the community posted of all decisions he Council and developments of the project. In er words the informing and educating of the mmunity was a continuous process. More com- nity interest was aroused, as well as a recogni- that the council was in dead earnest, when oldest building in Cobden, the Green building, razed and the land leveled to make room for new clinic.

Results

s in all major community action projects first big step is making knowledge meaningful, second step is the co-ordination of human re- rces so that this meaning can be focused on mmunity needs or problems by the *citizens them- es;* and the third step is the concentration of community's physical resources *by the citizens* that the needs can be met or the problems ed.

he major factor in the concentration of physical urces is the application of limited wealth to community problems in such a way that it can ance knowledge and thereby make it possible for individual to experience the type of dignity human development which authorities profess a democracy.

obden's community development leaders at- ed and overcame the first two big steps or dles very effectively. Now it was time to attack third one.

he fund-raising committee labored long and gently on the planning of fund-raising activities execution of their plans.

n extensive house-to-house canvass was launched citizens were given the opportunity to donate ls as a gift or as a loan without interest. Loans ld be repaid from the rent which the doctors dentist would pay.

addition to this the organizations in the town, ty and area all pitched in:

he first money donated was from a children's e class in one of the rural churches in the ty. They heard about the project, and voted ngst themselves to give what money they had to clinic.

he proceeds of the 20th and 21st Annual Peach ival, sponsored by the Lions Club, and in which rganizations play a major role, was donated to cause.

he Peach Festival Queen donated her cash rd to the clinic.

ooden nickels were distributed throughout the munity by the merchants in exchange for legal er. For every wooden nickel handed out, a legal el went towards the clinic.

he Future Homemakers in the high school home omics department held a community auction gave the proceeds to the clinic.

The Community Council held an election day dinner, and later a pancake day, and donated the proceeds.

The Firemen donated part of their proceeds from the community centennial celebration which they sponsored the year before. Later they were responsible for fixing the parking area.

A local citizen donated his time, and a county businessman donated materials for the manufacture of Hula Hoops. These were sold by local merchants and all proceeds went toward the clinic.

The Community Industrial Foundation purchased the building site. The proceeds from the sale of Cobden's oldest building which was sitting on the site, they contributed to the clinic.

One of the ministers planned a gospel sing for the community and the Cobden School Band members sold tickets for the occasion, with all proceeds being donated to the clinic.

One season the proceeds from the Ball Park which was operated by the Community Council went to the construction of the clinic, and another season the proceeds bought the furnishings in the waiting room.

There were certain days when carpenters, painters, electricians, laborers and other crafts donated their work toward the construction of the clinic.

A drive-in restaurant from an adjoining community donated one days proceeds to the clinic.

The County V.F.W. held a pie supper and donated the proceeds.

The Union County Sportsman Club held a turkey shoot and dinner, and donated the proceeds.

The local radio station held a radio-telethon and its proceeds went to the clinic.

The district office of the Woodman of the World on behalf of Camps in two neighboring communities donated a flag and flagpole for the building.

The doctor furnished his own equipment and contacted an area nurseryman to landscape the grounds.

Limestone was purchased from the county quarry for the attractive outside siding of the building.

Since the blueprints called for two waiting rooms, one of the rooms was converted into a dentist's office for the local dentist.

And the list could go on. By the time the clinic was completed, $19,000 of the $25,000 had been raised, and many of the citizens requested that their loans be transferred to a gift for this fine monument to their community's progress.

When it came time to decide on a name to be engraved on the wall it was decided to name the building the Community Clinic because all citizens agreed that this effort was truly a community venture and that *their* "Operation Co-operation" had brought dividends. *The Illinois State Legislature crowned their tremendous feat by approving House Resolution Number 60, commending this little town for its accomplishment.*

Conclusion

Folks in Cobden will tell you as they did in the

last paragraph of their pantomime skit that: "The Community clinic is more than a beautiful modern picture window or a structure of elegant Union County Limestone. The clinic is a symbol of an idea and a conviction from Cobden to the region of southern Illinois. The idea is that democracy is still at work in Smalltown and Hometown, U.S.A. The conviction is that Cobden people have proved to themselves and to others that there is no job she cannot do—no problem she cannot solve when she makes use of her own native initiative and abilities, and applies the knowledge and resources available to her. But above all, she has proved that there is no substitute for co-operation, hard work, and an attitude that says 'It *has* to be done, it *can* be done, and it *will* be done!' "

The Community Development Council through the process of community development is establishing the type of organization on the local level which can bring a brighter future for the Cobden community. How effective this community development process has been in the realization of these intangible values, requires more empirical evidence. So do we also need more empirical evidence as to what democracy is and how it can be made to function more effectively at the community level. The Cobden Community Clinic project described here reveals how knowledge can open new avenues of approach to community problems when more emphasis is directed to the application of knowledge through social process instead of relying solely on knowledge limited to subject matter content.

The obstacles which Cobden has overcome with the construction of this clinic, and those which she still has to overcome, is a chapter yet to be written in Cobden's Community Development story.

HOW SOME ILLINOIS FARMERS ACCUMULATED NEEDED CAPITAL

by William McD. Herr

Control over capital is essential for generating adequate incomes. In fact, on many farms of southern Illinois, inadequate income can be traced directly to insufficient capital resources.

Expanding control over capital resources comes by saving out of current income, by borrowing funds, and by renting additional resources. When income is already low, adding to capital via the saving process is at best a slow procedure. Thus, considerable attention usually focuses on the credit mechanism and renting resources as a means of broadening one's capital base.

In order to examine trends in capital accumulation and some of the factors affecting capital accumulation, balance sheet statements were obtained from about 50 long-time farm borrowers at each of three different Production Credit Associations (P.C.A.) in the state. The three associations were located at Harrisburg, covering the 14 southernmost counties of the state; at Danville, covering an eas central county, and at Decatur, covering five coun ties in central Illinois.

Data were obtained on each borrower previous t World War II, in the late 1940's, and at a recer date. Data for the three dates permit comparison of capital accumulation during two decades. Th early one extends from the late 30's to the late 40 and embraces a period in which farm prices an income were rising and generally quite favorabl to agriculture. On the other hand, the second de cade, from the late 40's to the late 50's, was period marred by downward price and incom pressures except during the Korean War.

Trends in Capital Accumulation

Over the approximate twenty-year period th average increase in capital resources employed b the sample of 152 long-time borrowers was mor than $36,000. Capital invested in the farm bus ness prior to World War II aggregated less tha $10,000 per borrower but in recent years ha expanded to more than $46,000, (Table I. It is estimated that somewhat more than hal of the increase was due to increased prices. Whil the average dollar gain per borrower at each P.C.A was virtually the same, the relative gain was muc greater in the Harrisburg area than in the othe two areas. Over the twenty-year period capital as sets increased more than fivefold among the sampl of southern Illinois borrowers compared to a three fold to fourfold increase in the central Illinois area In addition, considerably different patterns in cap tal accumulation emerged in the Harrisburg As sociation than in the two central Illinois Associa tions.

TABLE I. Financial Progress of 152 Long-tim Borrowers at Three Illinois Production Credit Associations[1]

	Prewar	*Postwar* (Avg. per Farm)	*Recen*
Total Assets	$9,871	$26,387	$46,28
Total Liabilities	3,016	4,105	8,68
Net Worth	6,855	22,282	37,59
Equity Ratio	70	84	8
Acres Operated	230	288	33
Owned	67	121	16
Rented	163	167	16
Animal Units	18	22	2

[1] The three associations included in this study have office at Harrisburg, Danville, and Decatur.

Members of the Harrisburg Association adde substantially to farm resources by boosting farm size from 222 to 378 acres. Another way to ind cate the rapid accumulation of land resources is t

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William McD. Herr is an associate professor in the agri cultural industries department, School of Agricultur Southern Illinois University.

e that whereas 35 per cent of the operators ıed half or more of the acres operated in the war period, more than two-thirds had reached status in recent years. In addition to adding siderably to their fixed capital, the group of thern Illinois operators also doubled the size of ir livestock operations and the increase in the :k of machinery and equipment was more than fold.

Trends in other areas were similar in direction, had an important distinction. The amount of d and other capital resources added was smaller n in the Harrisburg area but the quality of these ources, particularly land, was higher. For exple, the sample of Danville PCA members inased acreage operated by about 100 acres but ir livestock enterprises showed no change in . At Decatur, farm size was boosted by only acres and livestock operations by 30 per cent. reover, instead of two-thirds of the borrowers ning half or more of the land operated, only ut two-fifths had reached that level in recent rs. Machinery inventories increased by about same dollar magnitude in the two central Illis Associations as in the Harrisburg area. How-r, since the average investment in machinery l equipment was at the outset larger in these as than in the Harrisburg area, the relative inase was smaller.

Capital accumulation among long-time borrowers each area are charted in Figure I. While the a indicate that over-all capital increases were ilar in each area, the differences in the relative unt of capital used by farmers in each area e narrowed. Average assets per farm at Decatur e more than 80 per cent greater than those of mers in the southen Illinois area before World r II. In recent years this differential has been uced to about 20 per cent.

f operator's net worth is used instead of total ital assets, the same basic trend is noticeable. mely that the relative rate of capital accumula- was more rapid among borrowers in the south- area than in either of the two central Illinois as. To the extent that these trends are typical farmers in their respective areas, they indicate t income differentials due to variations in control r capital are becoming less important.

Accumulation in The Different Periods

Records for the 152 borrowers indicate that total itions to capital assets and to net worth were significantly different in the two decades. Capiassets per farm increased in the war decade and postwar decade by $17,000 and $20,000 rectively and net worth per farm increased someg over $15,000 in both 10-year periods. Morer, additions in acreage operated and in livestock rations rose by about the same increment in h periods.

n view of the widely different economic condis existing in the two periods and the increased of the operator, it is somewhat surprising that greater differences in capital accumulation did not occur. Apparently what has taken place is that in the early period, characterized by high income, capital accumulation took place primarily out of savings while the use of borrower funds was relatively less important. In the most recent decade, capital accumulation has continued but increases have been more dependent on borrowed funds.

This is illustrated in part by the increase in average equity ratios from 70 per cent in the prewar period to 84 per cent in the postwar era. On the other hand, debts have expanded relative to total assets in the past 10 years and the equity ratio has been reduced to 81 per cent. Another factor tending to push capital accumulation to the same absolute gain as in the war decade has been the rise in land values. With all of the expansion in acres operated coming in the portion owned and with a persistent rise in land values throughout the period, capital accumulation has continued at a fairly constant annual rate despite unfavorable commodity price and income trends.

Factors Associated With the Different Rates of Capital Accumulation

Long-term borrowers at each association were divided into two groups: those that accumulated capital rapidly in the postwar period and those that accumulated capital much slower. The beginning balance sheet statement for each group of borrowers

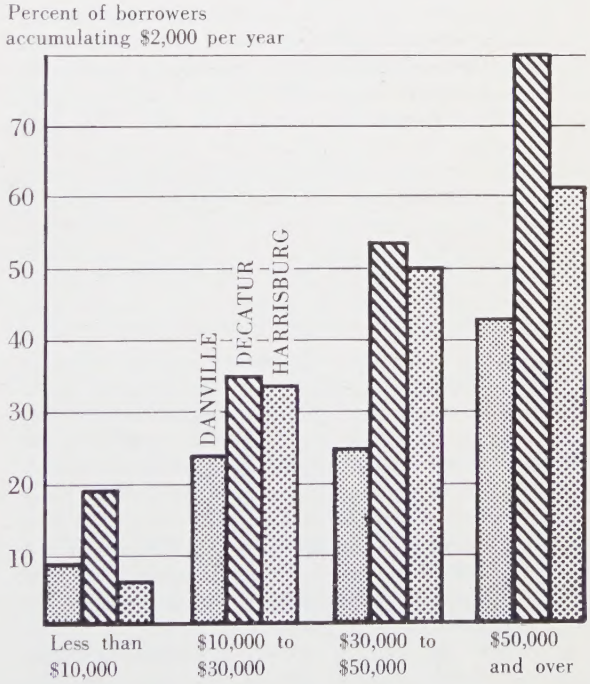


FIGURE 2. Percent of borrowers accumulating $2000 or more of capital per year in the postwar decade as related to beginning capital assets.

was examined in order to determine if there were any particular factors in the early postwar period that would have indicated subsequent rates of capital accumulation.

Rapid accumulators were generally more substantial farmers than the slow accumulators. Capital assets per farm and net worth for those farmers accumulating more than $12,000 during the postwar decade were more than 40 per cent greater than for the borrowers who accumulated less than $8,000 in the recent decade. At the beginning of the period nearly 75 more acres were operated by the rapid accumulators than by the slow accumulators and livestock enterprises were 65 per cent larger.

In order to examine the relationship between rates of capital accumulation and the beginning level of assets a tabulation was made relating the average annual increase in capital associated with various levels of assets (Table II).

As beginning capital assets of the borrower increased, subsequent additions to the borrowers capital assets also increased. This suggests that the capital status of an individual is an indicator of subsequent progress. That such a relationship shows up only attests to the fact that the greater the total bundle of resources farmers are able to control the larger income they are likely to have and the more financial progress they are likely to make. Among lenders, such as the F.H.A., who give considerable management advice, the relationship between beginning capital and subsequent progress may not be as great.

Perhaps more informative than the relationship between average beginning assets and subsequent gains is some indication of the frequency with which borrowers added $2,000 per year to their capital resources in the postwar decade. The data

TABLE II. Beginning Capital Assets and Subsequent Annual Increases in Capital Assets in the Postwar Decade.

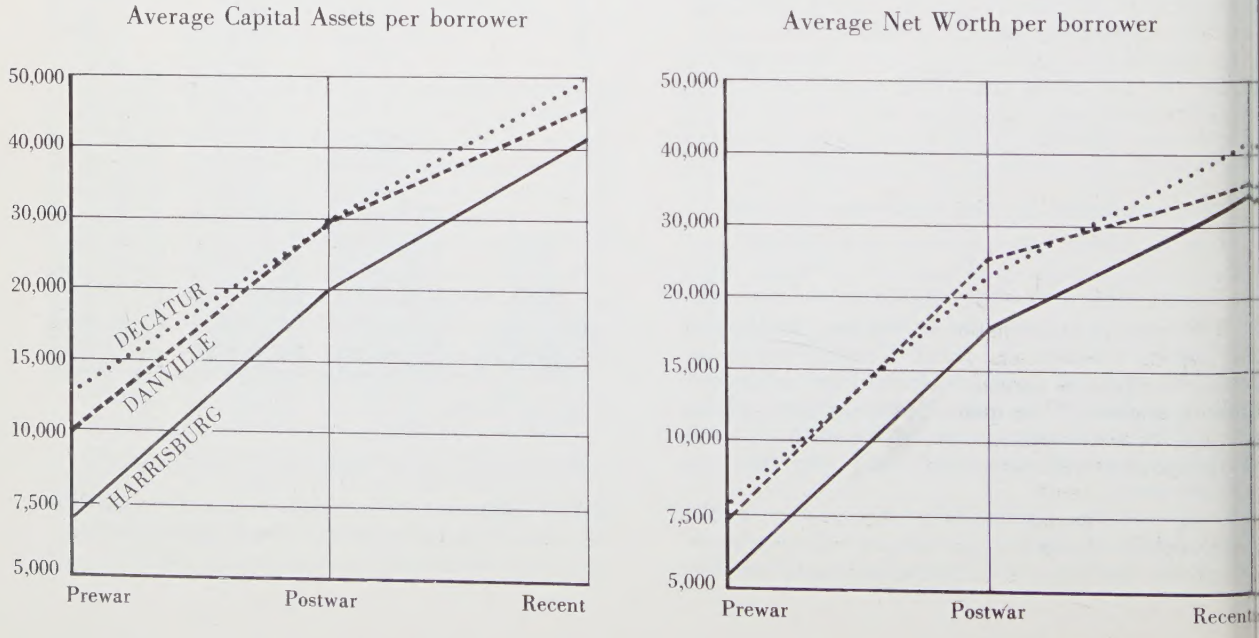
Beginning Capital Assets	Number of Borrowers	Average Beginning Assets	Average Funds Borrowed	Av. Annual Increase in Capital Assets	Annual Increase over beginning capital (%)
Less than $10,000	41	$ 6,451	$ 3,092	$ 744	1
$10,000 to $19,999	42	14,500	4,202	1,629	1
$20,000 to $39,999	45	28,487	6,124	2,388	
$40,000 and over	24	76,950	13,045	3,896	
All	152	26,358	5,868	1,973	

in Figure 2 indicate the percentage of borrowers at different levels of beginning assets accumulating $2,000 or more of capital resources per year in the postwar decade.

Fewer than 20 per cent, one in five, of the borrowers with capital assets of less than $10,000 added to their control over capital at a rate of $2,000 or more of capital resources per year in the postwar decade. However, among borrowers with substantially more beginning capital assets the chances were much larger of adding $2,000 per year to their stock of capital goods.

Differences among the areas are striking. Despite the limited number of observations in any one area it appears that variations in types of farm, tenure, soil resources and/or other environmental factors

FIGURE I. Trends in Capital Accumulation at Three Illinois Production Credit Associations over a twenty year period.



fect chances of adding to capital resources. These ta suggest at low levels of beginning assets the ds of adding $2,000 or more per year to one's pital resources are quite limited in all areas. How-er, at higher capital levels the chances of adding ,000 per year to one's assets is much greater in e Decatur and Harrisburg area than in Vermil-n County.

It should be noted that borrowers with larger ocks of capital in both the Decatur and Harris-urg areas had considerable more livestock than d their neighbors with more limited capital. How-er, in the Danville Association, livestock was esent in low amounts on farms with either low high amounts of beginning capital.

Another factor that may also account for these fferences in capital accumulation is tenure. In e Danville area, tenant operations are somewhat ore prevalent than in the other two areas. More ta from these and other areas are needed to tell ether these differences in the organization of riculture are important enough to significantly fect the chances of accumulating capital.

Summary and Conclusion

This study has shown that balance sheet data om the files of lenders can be an important source information pertaining to trends in capital ac-mulation. The data analyzed suggest that differ-ces in control over capital by farmers in central d southern Illinois have narrowed over the past years. To the extent that differences in the e of capital affect income, income differentials e to this factor should be less conspicuous in e future.

In addition, the study has shown that capital cumulation, when measured by dollar increases s as great in the war period as in the postwar cade and that the level of beginning capital is an portant factor on subsequent rates of capital cumulation. The odds of accumulating a specified ount of capital per year are much lower at low els of capital than at high levels. However, these ds may vary materially between areas indicating t more careful farm appraisals may need to be ade in some areas than in others.

ARNED INCOME CREDIT IS NEEDED FEDERAL TAX REFORM

by E. J. Schmidlein, Jr.

With respect to the national economy, economists d social philosophers agree that the healthiest m of income is *earned income*. Fifty years ago, bson stated: "The quantity of wealth available distribution depends upon the stimulus afforded the productive energies of man: this stimulus its turn depends chiefly upon the opportunity en to every member of the community to do his st work."[1] Consequently, under any system of centive taxation, it could be expected that people would be encouraged to produce more, that is, to earn more by a tax structure that would impose less of a burden on the fruits of individual effort than upon unearned income.

Yet, despite all the reforms introduced in recent federal tax legislation, the painful fact remains that no type of income is more heavily taxed today than is earned income. This despite the fact that we did have an earned income credit in our tax laws for a number of years. However, it became a casualty of World War II. Other wartime expedi-encies have ended, but reinstatement of the earned income credit has been overlooked in favor of tax benefits elsewhere.

Provision has been made for both an exclusion of and a credit for dividend income so that this form of unearned income bears a lower effective tax rate than income that is earned. It may be noted also that a special provision for a retirement income credit has been introduced into the tax law. The result is that retired millionaires are afforded some tax relief while the worker who so laboriously earns his income is taxed in full. Then, too, capital gains have an effective tax ceiling of 25 per cent. Moreover, the definition of a capital gain has been stretched to such an extent that income from coal, timber, and cattle operations often are limited to the 25 per cent maximum rate of taxation.

Recently, there has been some agitation for an adjustment of the depreciation allowance permitted on business assets. The tax laws allow a deduction for depreciation of business assets that are con-sumed in the production of income. This provision aims rightly at preserving the capital invested in an enterprise. However, to date, the deduction has been limited to the recovery of the "money" in-vested in the assets, and in today's inflationary spiral, recovery of the "money" investment falls short of the desired goal. Consequently, it has been advocated that the "money" cost of business assets be adjusted for price level changes so that the de-preciation based on the adjusted amount would result in the recovery of the "real" capital invested. Paton holds that "saving and capital formation are lagging and that this matter is especially serious in view of the continuing inflationary pressures."[2] He then adds that he is "firmly convinced that the most helpful specific change that might be made in the prevailing tax structure would be recognition, in some form, of the need for converting recorded plant dollars to a current basis in the computation of the depreciation deduction in the tax return."[3] No doubt there is considerable merit to the pro-posal. However, it should be noted that, if infla-tion continues, as is anticipated, the effect would be lower business taxes due to increased depreciation deductions.

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This latest proposal for tax reform points up the peculiarity that accountants do not depreciate the income of a working man as they depreciate that from a machine since they cannot appraise the value of a human being. Hence, the income from labor, as stated in terms of money, is always larger than it would be if the computation of income from property were taken as the standard. Yet, the professional and laboring man earns an income which is part a salary and part a return on capital invested. From the point of view of an individual, an investment in education or training to acquire earning power is an alternative to the purchase of income-yielding property. As Robinson has pointed out, from the view of the economy as a whole, "The stock of teachers, doctors, and trained workers of all kinds has to be maintained, by devoting resources to education, in much the same way as the stock of machinery has to be maintained by the engineering industry, and to increase the stock of trained personnel requires investment, just as much as to increase the stock of physical capital goods."[4]

To encourage business investment, the tax laws already provide for a depletion deduction in many instances. As a result, a single individual with *earned* taxable income of more than $14,000 falls in the 47 per cent tax bracket whereas a Texas oilman with *investment* income in excess of $4,000,000 ends up, after a 50 per cent depletion deduction, with an effective rate of only 45½ per cent on his income! Now, as described above, to further encourage business investment, it is proposed that business be allowed to adjust its depreciation deduction to recover "real" rather than "money" capital. Certainly our country should encourage the investor to invest. On the other hand, it would appear that equitably our country should, at the very least, encourage the earner of income to earn. This is not a new concept as witness the Report of the Ways and Means Committee that accompanied the Revenue Bill of 1924: "The fairness of taxing more lightly the income received as personal compensation for services rendered than income from investment has long been recognized . . . ."

Conceptually, then, an earned income credit appears both equitable and desirable. Practically, there appears to be no reason to bar its reinstatement. The credit appeared on tax forms for thirteen years and its return would not complicate the form any more than do the present special treatment items for capital gains, depletion deductions, dividend exclusion and credit, and retirement income credit. Then, too, the proposed reform of depreciation based on price level adjusted assets would complicate the tax return and would aid business. Now, the wage earner should have his turn. The next tax reform needed is an earned income credit for the individual.

[1] J. A. Hobson, *The Crisis of Liberalism: New Issues of Democracy*, London: P. S. King & Son, 1909, p. 164.

[2] William A. Paton, "Depreciation—Concept and Measurement", *The Journal of Accountancy*, October, 1959, p. 42.

[3] *Ibid.*, pp. 42-43.

[4] Joan Robinson, *The Accumulation of Capital*, London: Macmillan & Co., Ltd., 1956, p. 12.

COMPARATIVE ECONOMIC GROWTH: THE UNITED STATES AND RUSSIA

by Daniel L. Spencer

Testifying before the Joint Economic Committee of the Congress of the United States recently, Allen W. Dulles, Director of the Central Intelligence Agency, warned the United States that Soviet claims of economic performance to the effect that it will overtake the U.S. in a decade should be taken seriously.[1] His public remarks before an open meeting of this Committee were designed intentionally to dispel the amazing complacency which exists in this country about the productive superiority of the U.S. over the U.S.S.R. and of the system of capitalism over the system of communism.

Actually, he was only saying what analysts of comparative economic systems have been stating for some years; namely, that however viewed, the rate of economic growth under forced-draft Communism is more rapid than that of private enterprise capitalism. But it was important that Mr. Dulles drew attention to the problem. It is a matter of utmost importance that thinking people in the United States be aware of the problem and understand something of its dimensions and ramifications. To this end, this paper is designed to set forth some of the main facts of this crucial matter. While there is no simple answer offered, some perspective may be obtained from looking at Soviet official figures in the light of critical American scholarship.

Allen Dulles stated that Soviet industrial growth rate was about 8 to 9 per cent a year and that the comparable growth rate in the United States was less than 3 per cent. He warned that if these rates continue, the gap between the two economies will be "dangerously narrowed unless our own growth rate is substantially increased." However, he hastened to add that the rate of growth of the Soviet gross national product is slightly lower and hence less of a challenge. In other words, the Soviet economic challenge is greater in the industrial field, rather than in the economy as a whole.

Where did these figures come from? Basically from studies of American scholars who have scaled down Soviet official assertions. If we start by examining the latter, we find that they are far in excess of Mr. Dulles' statements. According to the Soviet handbook, *Forty Years of Soviet Power*, Soviet industry has increased 33 times since 1913.

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table from this source showing growth rates fol-ws:

TABLE 1
ean Annual Rates of Growth of Industrial Output the U.S.S.R. and the Major Capitalist Countries (Per cent)

	U.S.S.R.		CAPITALIST COUNTRIES		
	Entire Industry	Large-scale industrial enterprises	U.S.A.	Britain	France
40 years (1918–1957)	10.0	11.4	3.2	1.9	3.0
12 years (1918–1929)	6.9	9.7	3.0	1.2	7.9
11 years (1930–1940)	16.5	18.0	1.2	2.1	2.2
the 5 years of war (1941–1945)	1.7	1.5	9.8	....	....
11 post-war years (1947–57)	15.9	16.5	4.7	4.5	7.7
11 pre-war and 11 post-war years, i.e., in 22 years of the Great Patriotic War: average figures (1930–1940 and 1947–1957)	16.2	17.2	2.9	3.3	2.6

This table can be summarized by saying that official Soviet figures claim a rate of growth of er 10 per cent per year in industrial output for e whole 40 years of the Soviet period. In the ter-war period, with the negative rates of World ar II excluded, the official rate of growth is held be 16 per cent. It can be seen that our own rate growth looks very small in comparison. It is also sturbing to note that our rate of growth was rgest during the war period. While business was oming with us, the Soviets were experiencing struction of their economy. Under conditions of acetime competition, the reverse has been true.

These, of course, are Soviet figures. They suffer om numerous defects from our Western objec-e point of view. They are compiled by one urce, with no independent check. They are often adequately reported and collated; and they are equently noncomparable. They are no doubt nipulated from a political point of view; and, hough outright falsification is unlikely in the dgment of American scholars, they may include exclude items (slanting) to make the growth te come out higher. Moreover, no one is sure hat the quality of the goods produced is in com-rison with Western production of the same items. t with all these doubts, it is the consensus of estern scholars that Soviet data is usable if care taken.[3]

Therefore to get some perspective on these ures, let us examine the work of Professor War-n Nutter who has been working for five and a half years on a project at the National Bureau of Economic Research in New York.[4] Nutter and other Americans work with the official data on individual industries. They combine and recombine the data weighing it in accordance with various formulas and thus evolve indexes of output which differ markedly from the combined Soviet indexes. Working with the official data on individual industries, Nutter has compiled an index of industrial output based on all civilian industrial products which shows the growth of the Soviet Union as multiplying only 5 to 6 times rather than the official 33 times figure. On the critical matter of the growth rates, Nutter has drawn up the following comparative table:[5]

TABLE 2.
Growth rates for industry in Tsarist Russia, Soviet Union, and United States; Output, labor productivity, and output per capita, selected concurrent periods (Per cent)

AVERAGE ANNUAL GROWTH RATE

	I Output		II Output per unit of labor			III Output per head of population	
	Russia or Soviet Union[1]	United States	Soviet Union Per person engaged[2]	United States Per person engaged[2]	United States Per man-hour	Russia or Soviet Union	United States
1870–1913	5.3	5.1	(3)	(3)	(3)	3.7	2.9
1913–55	3.9	3.7	1.2	2.2	2.7	3.3	2.4
1913–28	.1	3.7	.7	2.7	3.6	.5	2.3
1928–55	6.1	3.7	1.6	1.9	2.2	5.3	2.5
1928–40	7.4	1.8	.5	1.1	2.4	5.9	1.0
1940–55	5.1	5.2	2.4	2.5	2.0	5.1	3.6
1928–37	10.9	1.3	1.1	.7	2.4	9.9	.5
1950–55	7.7	4.5	3.9	2.7	2.2	5.9	2.8

[1] For Soviet Union, measured by index for all civilian industrial products.
[2] Persons engaged measured in full-time equivalents.
[3] Not available.

Nutter's index which is based only on "civilian industrial products" holds that Soviet growth for the 1913–55 period was only 3.9 per cent as against the official index of 10 per cent for the 1918–57 period. Moreover in the after-war period, the Soviet official rate of 15.9 per cent in the postwar years (1947–57) is double the comparable figure of 7.7 per cent found by Nutter. A rough summary would be that Nutter's calculated growth rates work out to be about half those of the official statistics.

But even halving Soviet claims to its rapid rate of growth still leaves a very impressive performance on the part of the Soviets. Nutter's comparisons with the U.S. rate for the modern period of 1950–55 show the Soviets with 7.7 per cent and the U.S. with 4.5 per cent. If we go back to the prewar period (1928–37) during which the U.S. economy was wallowing in depression with a negligible rate of growth of 1.3 per cent, the rate of

the Soviet was 10.9 per cent. If we take this prewar rate and the postwar rate together to represent the Soviet planning period exclusive of the War, the average is about the 8 to 9 per cent quoted by Allen Dulles.

Now it should be noted that 8 to 9 per cent is about half the 16.2 per cent figure claimed by the Soviets; but even halved by a U.S. expert, the Soviet growth rate is still about double the modern United States rate, exclusive of the 1930's and the war boom. Thus we may conclude that even a critical analysis in America reveals that the Soviet Union is experiencing a distinctly more rapid growth than the United States. From the same table, it may also be noted that output per head of the population shows about the same picture. The one bright spot in Nutter's study involves his figures on comparative labor productivity or output per unit of labor. Here the United States seems to be ahead most of the time, but even here, in the last period, 1950–55, the Soviet Union showed a more rapid rate of growth.

What is the meaning for Americans and their system of free business enterprise? It is difficult to see all the implications of these challenging rates of growth, but several aspects stand out. First, that Prime Minister Khrushchev's well-publicized plans of overtaking the U.S. economy in another ten years must be taken far more seriously than previously. It is no longer easy to argue that Soviet rates are high because they are in the early stages of economic development and will eventually slow down to our slower pace as they take more of their income in the form of leisure as Americans are supposed to be doing. Also it is argued that they are scheduled to slow down because the base of their economy is getting larger and the absolute increments required to maintain the pace become increasingly huge. Slowing down for such reasons may still be possible, but people have been saying them for quite a while now. It doesn't seem sensible to count on its happening in the foreseeable future.

More to the point, ways must be found to step up our own rate of growth. Everyone knows that this is difficult in a market-type economy where decisions are made by millions of consumers, investors, and producers. But it is clear that a search for ways of injecting a greater growth potential under the free world system must be instituted. Already voices are heard with proposals. Thus, in a joint statement of more than 300 representatives of agriculture, business, labor and other interests adopted at a recent meeting of the National Planning Association in Washington, D.C., it was held that the U.S. has to take on a long-range horizon.[6] The statement singled out twelve key areas for concerted attack over the long pull and claimed that we needed U.S. style planning in these areas. They held that "it would be one of the great tragedies of civilization if this country failed to realize the potentialities of long-range planning because it failed to distinguish between planning that is 'made in USA' and planning that is 'made in Russia'." Just what "made in USA" planning in selected areas means is not made clear in the statement.

Indeed there have already been political repercussions on the growth problem. Governor Rockefeller in his speech before the Economics Club of New York on November 9 called for a stepped-up rate of growth of at least 6 per cent per year[7]. Most of the other leading politicians would probably agree with the need for it, but just how it is to be accomplished is clear to no one. In any case, it is worth the time of every thoughtful citizen to watch this central problem of economic growth carefully in the future. For as someone has aptly put it *the challenge is not the sputniks!* It is the faster growth rate of the Soviet economy and as this article has tried to show, this is not all Soviet propaganda.

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[1] *New York Times*, November 14, 1959, p. 1.
[2] U.S.S.R. Council of Ministers. Central Statistical Board. *Forty Years of Soviet Power.* Moscow, Foreign Languages Publishing House, 1958, p. 30
[3] U.S. Congress Joint Economic Committee. *Soviet Economic Growth: A Comparison with the United States.* Washington, Gov't. pr. off., 1957, p. 8.
[4] G. Warren Nutter, "The Structure and Growth of Soviet Industry: A Comparison with the U.S." U.S. Congress Join Economic Committee, *Soviet Economic Growth*, 1953 pp. 95–120.
[5] *ibid*, p. 105
[6] National Planning Association. *More Long-Range Planning.* Special Report No. 56, Washington, D.C., October 23, 1959.
[7] *New York Times*, November 10, 1959, p. 1.

LIFE INSURANCE COVERAGE IS A NECESSITY IN AMERICA

by Jerome J. Rooke

There is little doubt today as to the magnitude of the life insurance industry. Let us briefly take a look at some of the outstanding statistics at the end of 1958 for the industry as a whole.

In 1858 there were only 36 life companies in the United States. Today there are approximately 1,375 companies. The assets of the 36 companies in 1858 were $16 million; today's 1,375 companies have close to $108 billion in assets.

Presently there are $550 billion worth of life insurance in force in the United States of which $494 billion worth are with legal reserve companies. There are about 124 million individual policyholders which means that about 70 per cent of the population has some sort of life insurance coverage. We also know that in six out of every seven families at least one individual in that family is covered by life insurance. The average coverage per family is $8,800.

During 1958, $7.2 billion were paid to either policyholders or beneficiaries, and nearly 60 pe

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t of this total went to the living policyholders. e industry currently employs about 414,500 n and women.

As far as the state of Illinois is concerned, there nearly $34 billion of life insurance in force. nois ranks fourth in this category. The state has life insurance companies domiciled here.

Before one considers the various types of life urance coverages available, he must first deter- ne his own needs in terms of both protection and ings.

Let us now examine an individual's need for pro- tion for his family in case of the premature death the "breadwinner." Some of the most prominent siderations are these listed below:

(a) hospital, medical, and burial expenses
(b) state and federal taxes due
(c) educational fund for children
(d) redemption of outstanding mortgage
(e) income for wife and children (at least until the children become self-supporting)
(f) emergency fund

In order to calculate the necessary amount of life urance an individual should own, one must take o account all six factors and then deduct all in- ne that the family will receive in event of the ith of the head of the household. Social security nefits and any income received from investment examples of the above.

Types of Life Insurance

There are three basic types of life insurance on market today. There are, however, many devia- ns from these basic types because of the com- xity of merchandising. Each company must ne up with some "gimmick" in order to meet ay's competitive market. We shall attempt, how- r, to examine only the "basic" types of life urance—term, ordinary, and endowment.

Term insurance—Term insurance is primarily a porary protective device. The premium paid based upon the individual's age at the time of ance. Death is the determining factor as far collection is concerned. Term policies have no h value or loan value. In other words, one not expect to receive any certain sum just be- se he has had the policy in effect for a certain iod of time, and he can't obtain a loan through company on this type of policy. It is usually ed for a five-or ten-year period.

Positively speaking it certainly has its place in 's insurance program. It has the lowest initial (however, if kept in effect until the 60's it can ve to be the most costly). It is most useful as a tective device for a home mortgage. As the rtgage itself decreases, so does the term insur- e. One can purchase term insurance that is both vertible and renewable. Usually both of these ions are desirable. An example of how these op- ns operate is as follows:

An individual aged 25 obtains a five-year erm policy that is both renewable and con- ertible. This means, basically, that at every 5-year interval he can renew his policy for a like amount even though he may become un- insurable. His premium, however, will be based upon his newly-attained age. This op- tion usually expires at age 60 or 65. He may also elect, under his convertibility option, to change his insurance over to a permanent type of coverage. This may also be done disregard- ing the fact that he may be uninsurable at this point. The premium is based on his age at the time of conversion.

Ordinary life insurance—Ordinary life insurance is also called straight life or whole life insurance. It has often been called the all-purpose insurance. It has a level premium, which means that the same amount will be paid per year throughout the life- time of the insured. The initial premium charged is based upon the applicant's age at the date of issuance of the policy.

This type of insurance is primarily a protective device but also has a savings feature. It builds up a reserve which means that the policy has a cash and loan value, both of which increase as the years go by as long as payments are continued.

Perhaps the outstanding feature of this type of life insurance, and actually of all permanent types, is the nonforfeiture provisions that it provides. These built-in provisions specify that one may either obtain a certain amount of paid-up insur- ance, obtain a certain amount of extended term insurance, or obtain a cash settlement in event of financial need.

A deviation from ordinary life, but essentially the same, is the limited-payment policy. This type policy has all of the advantages and provisions of the ordinary policy. It differs from the latter pri- marily due to the fact that the premium is higher. The premium is higher because it is only paid for a prearranged number of years. Policies may be purchased that may be paid up in 20 years, 30 years, at age 60, at age 65, or at age 85. The pre- mium is based upon the individual's age at issu- ance. Because of this higher premium payment the reserve is built up sooner. Therefore, a larger cash and loan value is available to the policyholder than under an ordinary life insurance policy.

An example of how the two operate is as follows:

An individual, age 35, purchases an ordi- nary life policy. He must pay X dollars for it as long as he lives. Another individual pur- chases a paid-up at 65 limited payment policy. He is also age 35. He pays X-plus dollars, but his payments continue only until he reaches age 65 (30 years in this particular situation). He then makes no further payments, but his policy is completely paid for. The latter person also has greater cash and loan values due him because of the increased premium payments.

The main advantage of the limited-payment policy over the ordinary policy is that one can arrange for payments to cease at the same time that his productivity ceases, (assuming compulsory retirement at age 65).

The endowment—Primarily a savings feature, but with the protection needed, is our final basic type of life insurance. This is the endowment policy. Premium-wise it is the most expensive of the basic coverages. It is similar in many respects to the ordinary life policy, but its savings feature makes it rather unique. It has a level type premium, higher than a limited-payment policy, but is marketed along the same lines, e.g. 20-year endowment, 30-year endowment, endowment at age 65. It promises to pay to the beneficiary the face amount in event of the death of the policyholder, but also guarantees the policyholder that if he is still alive at the end of the endowment period, *he* will receive the face amount of the policy.

Assume that an individual age 35 takes out an endowment paid up at age 65. If he continues his payments his beneficiary would collect if he were to die before he reached 65. In event that he lives until 65 the company would pay the proceeds of the policy to him.

No observation of life insurance would be complete without the so-called "fringe benefits" or "extras." These are usually four in number, the most common being "disability waiver of premium." This means that the insured is relieved from the necessity of paying premiums during the period in which he is disabled.

Another fringe benefit is the "double indemnity" clause. This clause states that the company will pay to the beneficiary double the face amount of the policy should the policyholder die accidentally. Some companies now have extended this to a "triple indemnity."

A rather recent innovation is the "guaranteed insurability" clause. This guarantees the right to purchase additional amounts of insurance even though the individual may become uninsurable. A typical example is as follows:

> An individual, age 25, purchases $10,000 worth of permanent life insurance and has the "guaranteed insurability" clause. This gives him the option to purchase additional policies up to $10,000 each time at three-year intervals to age 40, (i.e. age 28, 31, 34, 37, 40) even though he may become uninsurable in the interval.

The final "fringe benefit" that should be mentioned (and probably the most important) is "disability income." This is a type of insurance that is often neglected. Most people will insure their house, car, etc., but fail to insure their most important asset—their future earnings. Disability income will pay a certain monthly income to an individual for as long as he is disabled. Caution should be exerted here as to the meaning of disability in the policy.

Finally, it can be said that there is no particular answer to the amount or kind of life insurance one needs. Each case must be decided on its own merits. One of the primary determining factors naturally being the amount of money that one can afford for this necessity.

MANAGEMENT 'KNOW-HOW'

(*Continued from page 2*)

and social satisfaction to keep them working and on the payroll. A high turnover in employees is a great drain upon the profitableness of any small business.

Fourth, to be a successful business means that it must be a profitable business for its owner. Sometimes profits can be anticipated in a growing business. Sometimes there are circumstances where profitless operation can be carried on for a time. But by and large a small business cannot be called successful if its return to the owner is little more than a salary or, possibly, not even that.

And finally, therefore, a business to be successful —must be headed by a person who has what is called management "know-how" or is capable of securing it rapidly. This "know-how" can be attained intuitively, by experience, or by observing others who have it. But without this "know-how" no business can last long and continue to pay salaries and earn a profit.

Importance of Owner to His Business

Now that I have placed the owner of a business in perspective, by indicating the relative importance of the know-how which is his contribution to a successful business, let me ask you this question: What is the greatest asset of a small business? The answer ought to be, the owner or manager. He not only puts all the other elements of a successful business together but he himself selects the elements.

It goes without saying that many situations can affect the success and even the future of a business. The extent to which they do affect the business, however, is determined by the owner who decides what he will do to meet a specific situation, and when he will do it.

I would like to ask you a second question. What is the greatest liability of a small business? If we were to go out on the streets of Carbondale right now and ask the first few small business operators we met, they might say competition, taxes, high prices, new products, shopping centers, or even change itself. But what do you say?

The chances are that this same owner is the greatest problem he has to deal with—he is his own greatest liability. If my assumptions are correct in specific instances, you have the interesting dilemma of an owner being his own greatest asset and his own greatest liability at the same time.

This does not mean that he cannot be successful. He is like a balance sheet in that there are certain assets on one side of the ledger sheet and certain liabilities on the other. When you add them up you either have an excess of assets or liabilities. Your proprietorship account is determined by the relative number and importance of each . . .

Manager a Decision-Maker

If we boil down the responsibilities of a manager into one sentence, and a short sentence at that,

ık it would be something like this: The manager a business is primarily a decision-maker. He ıer makes many small and large decisions every or they are made for him. He either creates policies and procedures of his business or they created by the decisions he does *not* make . . . . . Why is it that so many decisions are made on spur of the moment or that no decision is made all? Maybe we don't like to think. Maybe we we don't have enough information with which reach a decision. Maybe we just want a little e "to think it through." Whatever it is, or ybe there is no reason at all, lots of us in and of business are procrastinators. We put off a ision until tomorrow, and tomorrow often does arrive at all.

This evening, I want to develop three ideas which y be of some help to some of you in this matter wise decision-making. (I am going to assume, his point, that each of you is a business owner—owner of a reasonably successful small busi-s).

stinguish Between Policies and Procedures

Unless you are going to make every decision from atch, you have to establish some policies and ıe procedures with which you expect to operate r business. According to Koontz and O'Donnell rinciples of Management, page 432) "Policies . are plans. They are general statements, or lerstandings, which guide or channel the think- and action of subordinates in an enterprise." y might have added that policies also guide the king and actions of the owner-manager, as well. ou can establish a policy of selling at one price, using wholesalers as part of your channel of ribution, of manufacturing to a certain quality, agreeing that the customer is always right. The ortant point is, that when you have reached a clusion on a policy problem and made your de-on, you do not have to go through the same ration again and again, every time the problem ents itself. This method of operation has the at advantage also of helping you to be con-nt in dealing with other people, whether they employees, customers, or suppliers.

procedure, on the other hand, according to same authors (page 433) is also a plan. They ". . . for they involve the selection of a course ction and apply to future activities." Once you e a decision that your channel of distribution as nall manufacturer will be wholesaler to retailer onsumer, you can then proceed to act and call n your wholesale customers with their knowledge you will not also sell direct to retailers.

Vithout a policy, procedures may vary in almost y transaction. Since you become confused, yone else does also. Costs increase. Relations others fall apart. Volume drops. Profits dis-ear.

Allocate Time to Administering

y first idea concerns the importance of establishing sound policies and procedures. The second one involves a distinction between operation and administration. You are operating your business when you open its doors every morning, when you meet customers, when you talk with salesmen, when you call at the bank about a loan, when you order some merchandise or supplies or machines. Operations repeat themselves frequently, sometimes many times daily. They can and sometimes do become too routine but they are the things you often find yourself so busy with, that you cannot do any administering.

What do we mean by administering? First, let me say that administering is probably the most important thing you do relative to your business, or it should be: By administering, we mean planning, organizing, staffing, directing, and controlling your business. This means sitting down quietly by yourself and establishing policies and procedures so that your assistants and supervisors will know what you want done under different circumstances —so that you will know yourself . . .

Sources of Management Aid

The third and final idea which I would like to leave with you this morning on how you can improve your management efficiency relates to sources of information which you daily need to establish sound policies and procedures and to operate and administer your business successfully. On the spur of the moment, it is hard to recall exactly where you might turn for help on a question, the decision on which you have to make before the close of that work day. But there are a number of them—important sources and reliable ones.

Employees: First, you can turn to certain of your employees. Encouraged to make suggestions, you may be surprised with the quality and value of their ideas. Encourage them to be of help to you.

Sources of Supply: Second, look to your sources of supply. Many of them have staffs of engineers, management men, accountants who are highly qualified to be of help to you on very specific as well as more general problems.

Customers: Don't forget your customers, and their customers. They see your products in action or use them themselves. They can give you very concrete ideas about the good and bad points, what should be done to improve them, how your product compares with the competing ones, and the like.

Educational Institutions: Universities, such as SIU, are becoming an increasingly important and practical source of assistance to the owners of small and larger businesses alike. For example, you have a Small Business Institute, headed by a good friend of mine, Mr. Ralph Bedwell, which counsels with business, organizes courses of study, and operates conferences and seminars for businessmen so that they can keep themselves up to date on the latest technical, operating and administering problems of business.

I expect some of your faculty do consulting work for businesses of all sizes. Extensive training for

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middle management is offered by an increasing number of educational institutions. Special studies are initiated and management research is conducted by educational institutions concerned with the profitable operation of business in the areas served by them. I expect the possibilities have yet only been tapped.

Federal and State Government: Turn to your state Department of Commerce or your state Industrial Development Commission, the Small Business Administration or U.S. Department of Commerce nearby field offices. Take the *Small Business Administration* alone. In our 55 field offices, you can find help on financial assistance—under certain circumstances, we can make participation and direct loans; procurement assistance—if you have problems in selling to the Federal Government, possibly we can be of help; production and technical assistance—aid on your technical and production problems; management assistance—management publications, management counseling, management research, and administrative management courses.

Let me say just another word about these administrative management courses. Over 600 have been offered by educational institutions in recent years, including Southern Illinois University. About 20,000 owners of smaller firms have completed these courses which usually run one night a week for 8 weeks, averaging two hours an evening. About 25 men attend, listen to a trained and experienced speaker, follow this up with general discussion.

Ideas come from the speakers and resulting discussion. They are tested out during the coming week and rediscussed the following week. This is a good, practical way of refreshing yourself on the best modern methods of running your business.

Trade Association: In addition to these sources of aid, do not forget these others: Every industry and trade has an association, some have more than one. The value of membership comes first in the literature from the head office, in becoming acquainted with and exchanging ideas with other members, in sending in your specific problems and getting equally specific replies. Some associations do a great deal of research and educational work.

Trade Papers: Every industry and trade has a business or trade paper. The editors of these weeklies and monthlies travel a great deal—often half of their time—collecting cases, examples of new operating methods, short cuts, ways of economizing on labor, materials, time. In recent years, more and more space has been given to smaller firms and their problems. These publications also invite inquiries of a professional and technical character.

Accountant: Then there is the public accountant and the certified public accountant, most of whom are getting over into management work as well as strictly accounting activities. They can be of great help in personalizing your accounting system, making it give you a fuller and more exact story of your operations. They often can lead you out of budget problems, fiscal planning and help you prepare your bank presentation. Some firms are moving sharply into a management type of assistance.

Management Specialist: While there are a few quite large management engineering firms catering to equally large business corporations, there are many more smaller ones, qualified and able to assist smaller firms for a modest fee. Although few of them can help you on all management functions, there are good ones specializing on each of these functions in almost every market.

In addition, there are still other sources of help on specific problems such as the *advertising agency*, *marketing research firm*, *metropolitan newspaper* and *research department of other advertising media*. The list is almost endless so if you have a problem which does not classify itself easily in this respect, call our nearest field office and ask them. If they do not know the answer, they will find it for you. And the chances are that they will know the answer.

Summary

I have suggested three ideas. If you make good use of them, you will most certainly improve your management efficiency. The three ideas are: (1) Establish policies and procedures for your business; (2) distinguish between operation and administration and allocate some of your time every week to administration; and (3) learn to look outside your own experience for aid in solving your management problems. If an owner of a small business can claim these ideas as his own by the close of 1959, I believe he will find that he is improving his management efficiency.